# Boosting Top Game Developer Support & Securing Play Distribution on Samsung Devices

April 9, 2019

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### **CONTENTS**

# **Executive Summary**

**Context & Mobile Gaming Trends** 

Risks

### **Program Proposals**

- 1. Top Game Developers
- 2. Samsung

**Financial Summary** 

# **Executive Summary**

### Challenges & Opportunities

- 1. Google Play's growth and business model face risk:
  - Increasing competition (OEMs, 3P Stores) → risk of top developer churn
  - Emerging "app store tax" meme → pressure on Play's revenue share
- 2. Not fully optimized in Google's ability to deliver impact to top developers

### Impact

- Play margin loss: \$840M likely margin exposure in 2022 (cumulative ~\$2 Bn+ in 2019-2022)
- Android-to-iOS churn, due to fractured app distribution and security risks on Android
- Potential long-term upside in deepening top developer engagement across Google

### **Proposal**

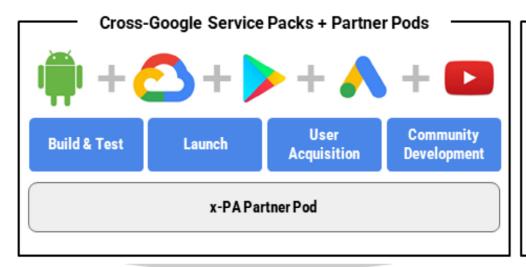
We propose to mitigate challenges and unlock upside via two programs deployed together:

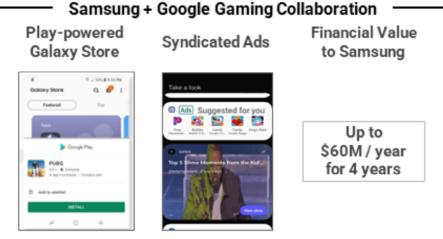
- Unify and boost Google's support of top game devs (via expanded offers and service levels)
- Secure and enhance Play distribution on Samsung (Android's largest OEM)

#### Ask

- Top Dev Packs: <u>Value to Dev:</u> \$450-\$500M 3-Yr GCP Credits, \$100M Ads Credits, \$240M across YT, eSports, co-mktg. <u>Net investment:</u> ~\$575M through 2022; +59 HC
- Samsung: Initiate gaming collaboration discussions, including direct financial value to Samsung of up to \$250M through 2022 (\$60M/year for 4 years + \$10 M Play Points in Year 1)

# Proposal Summary: Two programs deployed in conjunction





Ensure top developers distribute on Play

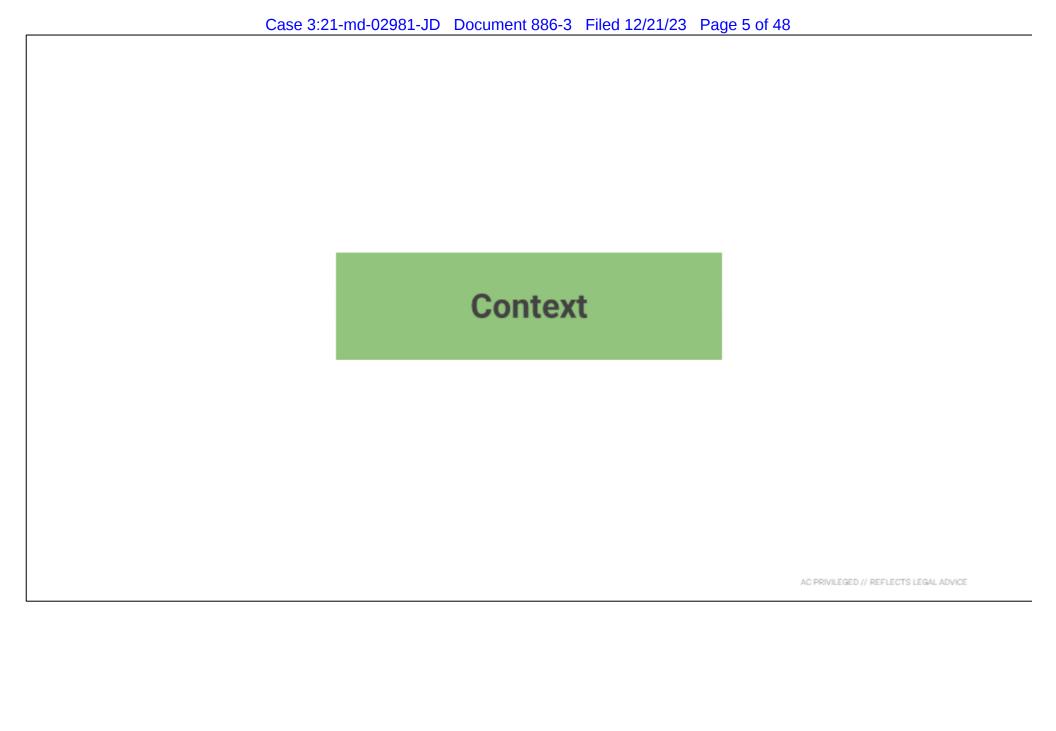
### Accrue value back to Google

- Play: Install and in-app purchase revenue growth
- GCP: Win-rate acceleration; marquee titles on GCP
- YouTube: Mobile gaming watchtime uplift
- Ads: UAC y/y growth rate acceleration; best practice adoption

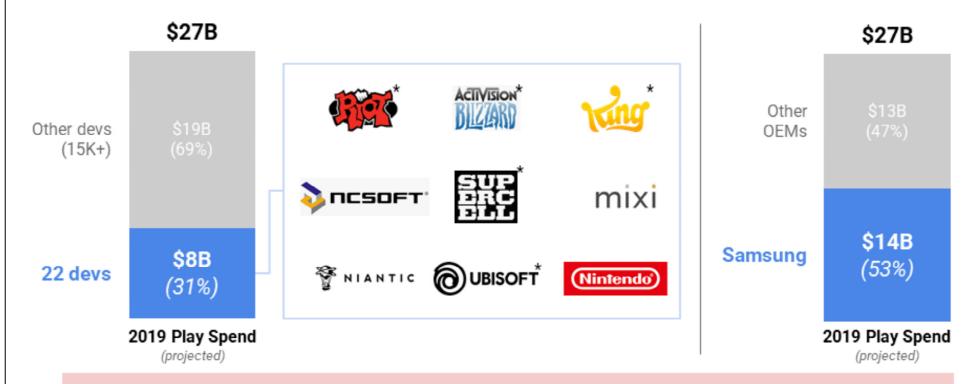
Motivate Samsung to prioritize Play Improve gaming experience & security on Android

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- Both programs are needed
- Need to invest in top devs now to ensure imminent launches happen on Play and reduce noise
- Samsung is aggressively pursuing gaming, and indicated they're open to partnering with us (but a deal will take time to negotiate and implement)
- Note: We're also beginning to explore ways to reduce 'app store tax' sentiment across the developer ecosystem, via new business model concepts



# Play's business is concentrated among top developers, and on Samsung devices



The loss of top developers, either to competitors or by 'going-it-alone' on Android, would significantly impact Play's business

\*Tencent investment

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- HVUs: 3% of buyers spend 50% of app & game spend
- Samsung concentration of 53% reflect 2018 actuals. Concentration is even higher in few key Play markets, eg, KR

# Recent ecosystem trends

### **Competitors Aggressively Pursuing Gaming**



- Homescreen icon on S10
- 20% rev share
- Pursuing top tiles (exclusives and co-list)



- Launching app store in 2019/20
- 12% rev share (on PC)
- New \$100M developer fund (no strings)
- Pursuing exclusive content & winning on PC



- 20% rev share
- Allows 3P billing (5% rev share)
- Partnered w/ Samsung in
   KR



Funding in-app purchase discounts (up to 20%) to attract users

### "App Store Tax" Meme Emerging

#### Apple and Google Face Growing Revolt Over App Store 'Tax'

Opinion: Google's 30% cut of Play Store app sales is nothing short of highway robbery



# APPLE IMPOSES A DISCRIMINATORY 30% TAX

Apple taxes competitors to advantage their own services

\*Tencent investment

# Major developers are increasingly considering distribution off Play. They also express discontent over Play rev share, and lack of unified Google offers / support

	2019 Play Spend*	Activity In Past 8 Months	_
EPIC	\$0	Launched hit title 'Fortnite' off Play (August 2018)	
<b>FIG</b>	\$550M	Imminently deciding whether to launch new mega title off Play	
ACTIVISION BILLARD	\$50M	Actively evaluating whether to launch new mega title off Play	AAA PC / Console devs with capabilities to bypass Play
NCSOFT	\$1,000M	Planning to co-list top grossing title on Samsung Store. Asked for revenue share cut	
SUP ERC ELL	\$700M	Asked for revenue share cut "across the board"	'Mobile Major' allies
King	\$650M	Seeking commercial synergy across Google (Play + Ads)	changing their tune
*Projected. Riot s	pend projection	is for 2020	AC PRIVILEGED // REFLECTS LEGAL ADVICE

# Challenges: (1) significant Play revenue / margin loss (\$2.5B+ revenue / \$2B+ margin at risk, 2019-2022) and (2) Android-to-iOS churn



Android to iOS Churn

#### **User Trust Erosion**

- Security and privacy risks
- Top titles not available on all devices
- Friction navigating various app stores

Fortnite players using Android phones at risk of malware infections

TWO PROPOSALS

**Top Developers** 

Samsung

# Proposal: Unify and boost Google's value proposition to target developers, via expanded offers and service level



Four new cross-Google "service packs", across the developer lifecycle

### **Build & Test**

### Launch

# **User Acquisition**

# Community Development

Boost reach of high-fidelity games on Android; reduce cost and friction

Enable bigger and more far reaching launch moments

Boost volume and efficacy of new user acquisition

Build gaming communities to engage users

Cloud credits<sup>[NEW]</sup>

Android Dev Tech &

Cloud consultations[NEW]

- Play 'Growth Consulting'
  - Co-marketing campaigns
  - Play Store featuring
  - YT influencers<sup>[NEW]</sup>

- Ads credits<sup>[NEW]</sup>
- Ads consultations & ML integration[NEW]
- eSports tournaments & gaming events<sup>[NEW]</sup>
- YT channel growth [NEW]
  - eSports sponsorships<sup>[NEW]</sup>



x-PA "Partner Pod" to coordinate x-PA service delivery to developer



Denotes consultative services which (1) bring unique Google know-how to devs, and (2) amplify value of other investments (e.g. credits)

# **Program Goals**

### **Desired Developer Behaviors**

# 1) Prioritize Play

- Launch on Play on "day 1" of mobile launch
- Co-invest in promoting Play title
- Improve game quality & device reach
- Maintain game parity across platforms

### 2) Boost x-PA Product Adoption









#### PA Success Metrics

- Play: install and in-app purchase revenue growth
- GCP: win-rate acceleration; marquee titles on GCP
- YouTube: mobile gaming watchtime uplift
- Ads: UAC growth rate acceleration; best practice adoption

### 3) Improve Sentiment / Satisfaction

- Improve sentiment about (1) Play revenue share, (2) building high-fi games for Android, and (3) Google's gaming value proposition
- Android: reduced app distro fragmentation

# Cross-Google Service Pack Offering (Program Details & Asks)

### Offer to Developer

### **Primary PA Success Metric**

**Build & Test** 

- Cloud Credits: Return 2% of Play spend as GCP credit (~\$150M credit issued / yr); 3-yr term; credits issued every 6 mo; credits expire 6 mo after issuance
- Technical / Eng Consults: Provide GCP, Dev Rel, & Dev Tech technical advisory to optimize game for Android & prepare for launch (+10 HC)



- Top developer win-rate and ARR acceleration
- Marquee games running on GCP

Launch

- Co-marketing Campaigns: Promote launches with Google-led campaigns, & support developer-led campaigns (~\$73M / yr; +10 HC)
- YouTube Influencers: Activate YT creators / influencers to promote game titles (~\$12M / yr; +2 HC)
- BD & Growth Consulting: Custom support to improve launch outcomes and unlock growth (+15 HC)



- Titles sim-ship on Play
- Play revenue and install growth
- (Marketing)
- 'Preferred gaming destination' brand uplift

User Acquisition

- Ads Credits: Launch \$100M ad credit fund. Credits not to exceed 33% of dev ad spend. Support new title launches & int'l expansion
- Ads Consults: Provide consults to execute creative strategy, retention & monetization, and market expansion (\$15M / yr, +13 HC)



- UAC y/y growth rate acceleration
- UAC best practice adoption, including Creative Excellence and Predicted Payer ML

Community Development

- Mobile eSports: Produce mobile gaming events with YT influencers & pro-gamers. Stream events on YT exclusively. (\$20-\$50M / yr; +8 HC)
- eSports Sponsorship: Sponsor developer esports events (\$5M / yr)
- YT Presence Grant: Create robust O&O YT channel (\$15M / yr; +2 HC)



 Mobile gaming watchtime growth (to 10% by 2022)

# **Target Developers**

# AAA PC / Console









# Concentrated 'Mobile Majors'







# Strategic 'Mobile Majors' (8 developers)







NIANTI

### Drive disproportionate value to Google

(\$8B 2019 Play Spend projected; \$XX X-PA rev)

### Beacons of the ecosystem

## Expressed discontent over Play rev share and lack of unified support from Google

### May forgo Play (& Android)

- Upcoming major new title launch
- Difficulty delivering hi-fidelity games on Android
- Capabilities to 'go-it-alone' on Android

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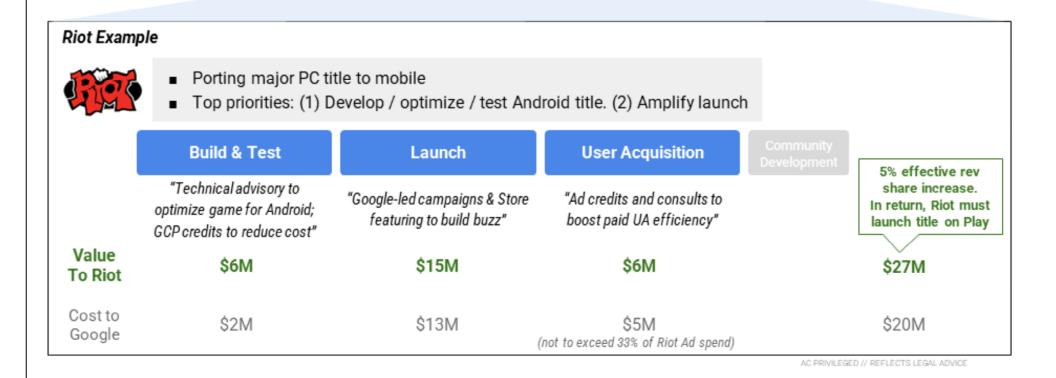
Dev List

# Service Pack Deployment: Match developers with 'Service Packs' based on developer's top business objectives and lifecycle stage

Concentrated Mobile Majors

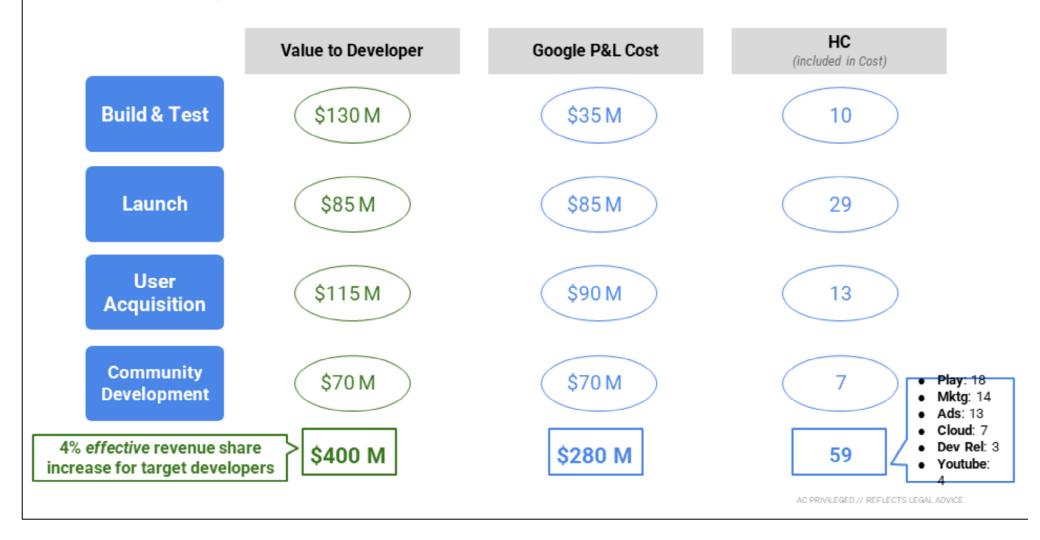
AAA PC / Console

Strategic Mobile Majors

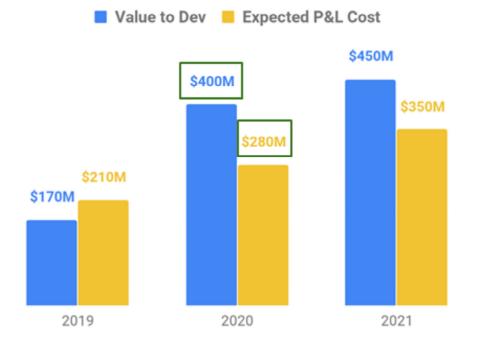


- More developers
- -Piloting Build & Test & Launch packs with Riot → good early traction

# Value to Dev by Service Pack (2020 view)



# 3-year Value to Developer exceeds P&L cost\*



# Value to Dev (2020): ~\$400M (~4.4% effective rev share)

- Dollar amount of developer offers, including Ads credits, Cloud credits, Youtube Presence grants, Marketing spend, etc.
- Excludes HC costs

### Expected P&L Cost (2020): \$280M

 Includes HC costs and accounts for expected credit redemptions

Note: Expected P&L cost exceeds Value to Dev in 2019 due to timing difference between Play revenue deferral (2019) and Cloud revenue recognition (2020)

Note: Figures are rounded

\*Assumes Program Continuity

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- Note that
- P&L cost starts exceeding Cost to deliver value in 2020 & 2021 as GCP credit redemption increases

TWO PROPOSALS

**Top Developers** 

Samsung

### Context

Samsung pursuing gaming on Galaxy Store

### Samsung's Goals

- Grow services business
- Differentiate hardware
- Appeal to younger users
- Possibly "Apple Envy", BU incentives, Google dependency reduction

#### Galaxy Store on DHS



#1 grossing game on Play co-listing in Galaxy Store



#### Exclusive Titles / Content

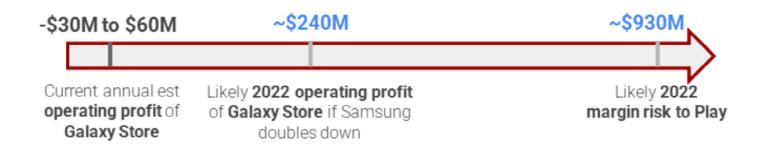


Rumor: paid \$40M for exclusive Niantic content



Represents large oppty for Samsung

(and larger risk to Google)



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Jamie / Jim

# Proposal: strategic collaboration that advances Samsung goals, promotes Play on Samsung devices, and improves Android gaming experience

### Product Collaboration







### Financial Gives

- Ads rev share from syndicated Google Ad products
- Co-marketing opportunities for Samsung-exclusive content and deals
- Up to \$10M in 'Play Points' discounts for 1 year for Samsung phone buyers
- Up to \$60M annual payment for 4 years

### Google Gets

- Play hosts Galaxy Store games/apps, and provides billing, security, and updates
- Play and Galaxy Store are only app stores on Default Home Screen
- Samsung adheres to Android Gaming Standards

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- We want to collaborate with Samsung and bring multiple levers (not just cash) to the table. Some levers are win-win (e.g., alley-oop + syndicated ads + play points + co-marketing at gaming events)
- Upfront cash payment is needed to address their Galaxy store P&L. We are anchoring on the range of net profit that we estimate Galaxy store makes
- Potential upside from ads syndication would be lucrative for both Samsung and Google (size depends on how much Samsung is willing to partner wrt surfaces & ads
  targeting parameters). Samsung does not need to build its own large sales team and court devs. Can participate in the upside as several large publishers do today.
- Marketing opportunities:
- Lootdrop starter packs for new Samsung device purchases (dev sponsored)
- Joint future esports events (e.g. VSPN/Google event offering first access/exclusive sponsorship opportunity to Samsung)
- Co-sponsorship opportunity for geo-specific gaming conferences (e.g. Tokyo Game Show, Taiwan Game Show)
- Playpoints:
- Targeting 3M ultra-premium devices based on IDC device sales data by price and geo
- Cost driven by Play credits (games/apps/books/movies), weekly rewards (e.g. 1-3% points back on spend), and higher points earning per \$ spent

# Ask to BC: Initial Approval of Top Dev Service Packs (including 3-Yr Cloud offering), and 4 year Samsung deal

	BC Ask	Expect	ted Net Inv	estment In	npact (of B	C Ask)
	DO ASK	2019	2020	2021	2022	Total
	Cloud: 2% of Play Spend over 3 years. Estimated \$450-\$500 M in GCP credits over 2019-2022; approximate yearly break down 2020: \$129M, 2021:\$152 M, 2022: \$185 M)	\$58	\$33	\$76	\$24	\$191
Top Dev	Ads: \$100M 1-year UAC Credit Pilot and \$16M in Strategic Value Adds (SVA)	\$59	\$25			\$84
Offerings	Marketing: ~ \$170M commitment through 2020 composed of \$145M in Marketing and \$25M in YT Presence Grants	\$63	\$94	-		\$157
	eSports: \$66M through 2020, a 2-phased investments of \$17M in 2019 and \$49M in 2020	\$17	\$49	-		\$66
	Payroll based on ~60 FTEs	\$13	\$21	\$21	\$21	\$76
<b>Developer Invest</b>	ment (A)	\$210	\$223	\$97	\$45	\$574
Samsung Investment (B)	Up to \$60M lump sum to Samsung for 4 yrs + 1 year of up to \$10M Play Points	\$70	\$60	\$60	\$60	\$250
Total Investmen	nt Ask (A+B)	\$280	\$283	\$157	\$105	\$824

Cloud: 3-yr term; credits issued every 6 mo and expire 6 mo after issuance

Ads: Credits not to exceed 33% of dev ad spend. Support new title launches & int'l expansion; SVAs provide consults to execute creative strategy, retention & monetization, and market expansion

Marketing: Mainly co-marketing campaigns to promote title launches, YT Presence Grants help build robust O&O YT Channels

**eSport:** Produce mobile gaming events with YT influencers & progamers. Stream events on YT exclusively.

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### Risks and Mitigation Risks Mitigation Contagion to other developers Objective developer eligibility criteria Other developers ask for increased support NDA Reactive FAQs Top Developer Support x-PA execution & operational complexity . Form 'x-PA partner pods' & x-PA governance Google historically hasn't flexed 'One Google' council to de-risk operational complexities muscle. Title launch dates are also volatile Additional resourcing/HC Limit Samsung catalog (only apps with unique Samsung reverts to 1P store backend after functionality / offers for SS users) deal expires De-commodify app distribution via Play product investments Samsung Erode Play brand & user loyalty Retain prominent Play branding within SS store Limit Samsung catalog Expand Play user loyalty program to top geos AC PRIVILEGED // REFLECTS LEGAL ADVICE

- De-commodify app distribution: Invest in infrastructure for improve app distribution developers on Play. Investments include:
  - App Bundles: modularizing the app allows apps to shrink in size (~35% today). Developers that implement this smaller apps see a 3-4% increase in installations. They also see a decrease in un-install rates
  - For advanced developers, adding the ability to deliver app features to specific audiences ("dynamic features")This could drive a significant size increase for some apps, both download size and size on disk

# **Appendix**

# P&L economics of program to mitigate against \$2 Bn + of margin over 2019-2022

### Investment (P&L Impact)

#### **Risk/Investment Considerations**

		2019	2020	2021	2022
	Cloud Program	\$58	\$33	\$76	\$24
	Ads Program	\$59	\$83	\$83	\$83
Top Dev Offerings (P&L Impact)	Marketing*	\$63	\$94	\$94	\$94
(Fat impact)	eSports	\$11	\$34	\$75	\$75
	Payroll	\$13	\$21	\$21	\$21
Dev Offerings P&L Im	pact (A)	\$204	\$265	\$349	\$297
BC Ask to start with		\$210	\$223	\$97	\$45

Samsung P&L Impact (B) \$70 \$60 \$60 \$60
--

Total P&L Impact (A+B)	\$274	\$325	\$409	\$357
BC Ask to start with	\$280	\$283	\$157	\$105
Risk Mitigation	\$100	\$320	\$560	\$750
Total Risk	\$120	\$370	\$630	\$840

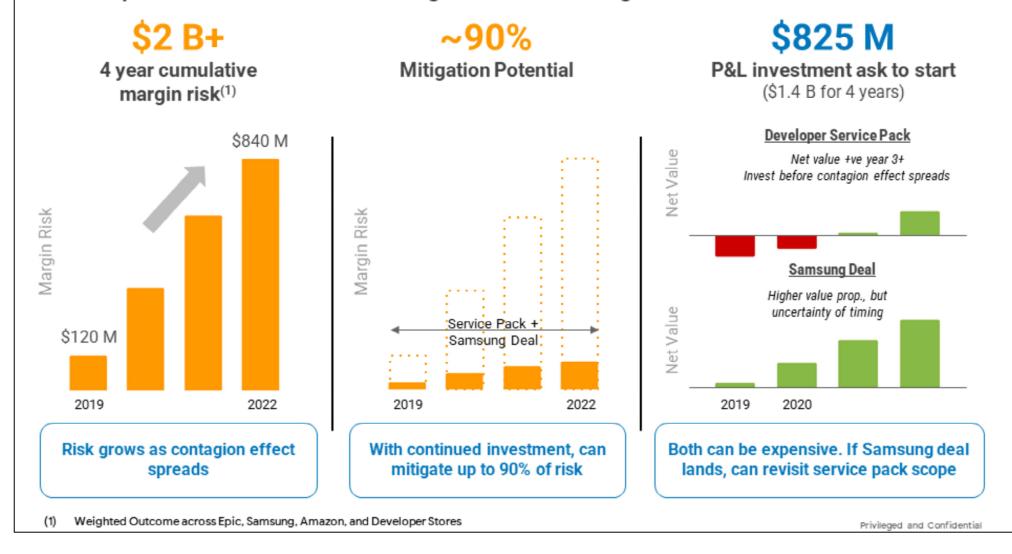
- Mitigate against \$2 Bn + of margin risk over 2019-2022. ~90% to be mitigated by these programs; requiring early investment to protect against risk growth
- By 2022, we will be investing \$350-\$400 M/year against ~\$840 M of annual risk
- Opportunity to optimize Dev Offering investment based on success of Samsung deal

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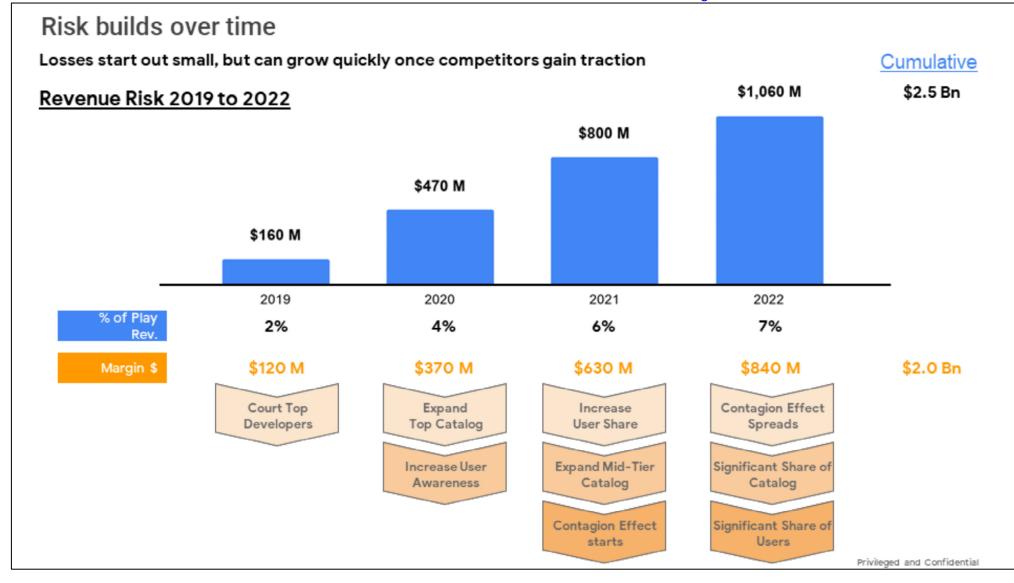
Marketing line includes YT presence grants and also accounts for incrementality from marketing spend

<sup>\*</sup>Marketing line item includes YT presence grants

# Developer Service Pack + Samsung deal would mitigate most of the risk



Net Value: Mitigation - Investment



- Play Revenue = Apps & Games + Ads on Play
- 2019 Assumptions:
- Epic Store to launch Q4 2019
- Risk from Samsung and Amazon store already underway with existing stores and already known co-listing of top developers (Niantic's Harry Potter and NCSoft's Lineage M)
- A couple of partial exclusives off-play expected to occur in 2019
- Play would still retain at least ~50% of the top developers in 2019 with most likely defection of top developers ramping up to 100% in 2020
- <a href="https://docs.google.com/spreadsheets/d/1e7ZzdGpYZJIEhOIESEvrYINZ-M-6wptQwT8Alxyf4Ns/edit?ts=5c807718#gid=1323652187">https://docs.google.com/spreadsheets/d/1e7ZzdGpYZJIEhOIESEvrYINZ-M-6wptQwT8Alxyf4Ns/edit?ts=5c807718#gid=1323652187</a>

# Hypothetical Hug and Samsung, Hug wound down after year 2

# Margin Impact (2019 - 2022)

	2019	2020	2021	2022	4 Year Value
Starting risk	\$120 M	\$370 M	\$630 M	\$840 M	\$1,970 M
Hug mitigation	\$50 M	\$190 M	\$90 M	\$0 M	\$320 M
Samsung mitigation	\$0 M	\$80 M	\$330 M	\$500 M	\$900 M
Total mitigation	\$50 M	\$260 M	\$420 M	\$500 M	\$1,220 M
Remaining risk	\$80 M	\$110 M	\$210 M	\$340 M For simplicity, wou Hug down to 0	\$740 M
Hug investment	\$210 M	\$280 M	\$0 M	\$0 M	\$490 M
Samsung investment	\$70 M	\$60 M	\$60 M	\$60 M	\$250 M
Total investment	\$280 M	\$340 M	\$60 M	\$60 M	\$740 M
Net value	-\$230 M	-\$80 M	\$360 M	\$440 M	\$480 M

Samsung deal investment does not include any additional TVC/OpEx/HC costs for product offerings

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- Source sheet:
- https://docs.google.com/spreadsheets/d/1e7ZzdGpYZJIEhOIESEvrYINZ-M-6wptQwT8Alxyf4Ns/edit?zx=5yg339kwdcpm#gid=1323652187

# Hug + Samsung deal together

# Margin Impact (2019 - 2022)

	2019	2020	2021	2022	2 Year Value	4 Year Value
Starting risk	\$120 M	\$370 M	\$630 M	\$840 M	\$490 M	\$1,970 M
Combined						
Mitigation	\$100 M	\$320 M	\$560 M	\$750 M	\$420 M	\$1,720 M
Total investment	\$280 M	\$340 M	\$410 M	\$410 M	\$620 M	\$1,440 M
Net value	-\$180 M	-\$20 M	\$150 M	\$340 M	-\$200 M	\$280 M
<u>Standalone</u>						
Hug mitigation	\$50 M	\$190 M	\$370 M	\$520 M	\$230 M	\$1,130 M
Hug investment	\$210 M	\$280 M	\$350 M	\$350 M	\$490 M	\$1,190 M
Net value	-\$160 M	-\$100 M	\$20 M	\$180 M	-\$260 M	-\$60 M
Samsung mitigation	\$100 M	\$220 M	\$370 M	\$500 M	\$310 M	\$1,180 M
Samsung investment	\$70 M	\$60 M	\$60 M	\$60 M	\$130 M	\$250 M
Net value	\$30 M	\$160 M	\$310 M	\$440 M	\$180 M	\$930 M

Together, mitigates most of the risk and is net value positive

but both are expensive

Net value starts negative, turns positive in year 3+

Invest ahead of major risk to prevent contagion effect

Samsung deal has higher value prop, but uncertainty of timing

If deal lands, can revisit Hug scope to further optimize

Samsung deal investment does not include any additional TVC/OpEx/HC costs for product offerings

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- Source sheet:
- https://docs.google.com/spreadsheets/d/1e7ZzdGpYZJIEhOIESEvrYINZ-M-6wptQwT8Alxyf4Ns/edit?zx=5yg339kwdcpm#gid=1323652187

# Hug only (no Samsung deal)

# Margin Impact (2019 - 2022)

	2019	2020	2021	2022	4 Year Valu
Starting risk	\$120 M	\$370 M	\$630 M	\$840 M	\$1,970
Hug mitigation	\$50 M	\$190 M	\$370 M	\$520 M	\$1,130
Remaining risk	\$80 M	\$180 M	\$260 M	\$320 M	\$840
Hug investment	\$210 M	\$280 M	\$350 M	\$350 M	\$1,190
Net value	-\$160 M	-\$100 M	\$20 M	\$180 M	-\$60 1

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Source sheet:

https://docs.google.com/spreadsheets/d/1e7ZzdGpYZJIEhOIESEvrYINZ-M-6wptQwT8Alxyf4Ns/edit?zx=5yg339kwdcpm#gid=1323652187

# P&L economics of program to mitigate against \$2 Bn+ of margin over 2019-2022

	millions, USD		2022		
Play Profitability Plan	Net Revenue	\$10,522	\$12,266	\$14,124	\$16,063
of Record	Operating Profit	\$6,195	\$7,400	\$8,624	\$9,901
	Op Profit Margin	58.9%	60.3%	61.1%	61.6%

		2019	2020	2021	2022	ı
	Cloud Program	\$58	\$33	\$76	\$24	1
	Ads Program	\$59	\$83	\$83	\$83	
Top Dev Offerings (P&L Impact)	Marketing*	\$63	\$94	\$94	\$94	S
(Fat impact)	eSports	\$17	\$49	\$75	\$75	Play/Mktg: \$ Cloud: \$3 M
	Payroll	\$13	\$21	\$21	\$21 <	Ads: \$4 M
Dev Offerings P&L Im	ipact (A)	\$210	\$281	\$349	\$297	
BC Ask to start with		\$210	\$223	\$97	\$45	_

Total P&L Impact (A+B)	\$280	\$341	\$409	\$357
BC Ask to start with	\$280	\$283	\$157	\$105
% of Plan of Record Op Profit	4.5%	4.6%	4.7%	3.6%

Risk Mitigation: \$2 Bn + of margin risk over 2019-2022. ~90% to be mitigated by these programs; requiring early investment to mitigate risk growth

Notes: \*Marketing line item includes YT presence grants

#### Financial outlay assumes:

- Ads Credit capped at \$100 M annually
- Cloud Credits scale at 2% of Play Spend for 3 years, with usage ramping y/y
- Marketing (including YT Presence grants) capped at \$94 M annually
- eSports: Phased approach scaling from \$17M in 2019 to \$75M in 2021

	2019	2020	2021	2022
Play	-\$214	-\$300	-\$358	-\$306
Cloud	-\$1	\$51	\$41	\$41
Ads	-\$65	-\$92	-\$92	-\$92
Youtube	\$0	\$0	\$0	\$0
Google P&L	-\$280	-\$341	-\$409	-\$357
	Cloud Ads Youtube	Cloud         -\$1           Ads         -\$65           Youtube         \$0	Play         -\$214         -\$300           Cloud         -\$1         \$51           Ads         -\$65         -\$92           Youtube         \$0         \$0	Play         -\$214         -\$300         -\$358           Cloud         -\$1         \$51         \$41           Ads         -\$65         -\$92         -\$92           Youtube         \$0         \$0         \$0

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Marketing line includes YT presence grants and also accounts for incrementality from marketing spend

# **Developer Value View**

	Projected 2020 Play Spend	Value To Developer						
		Build & Test	Launch	User Acquisition	Community Development	Total	Effective Rev Share Boost	P&L cost
Riot	\$550	\$6	\$15	\$6	\$0	\$27	5%	\$20
Niantic	\$700	\$0	\$18	\$3	\$1	\$22	3%	\$20
NCSOFT	\$1,200	\$22	\$12	\$3	\$1	\$38	3%	\$20
NEXON	\$150	\$3	\$3	\$3	\$2	\$11	7%	\$9
Nintendo	\$600	\$13	\$7	\$5	\$2	\$27	5%	\$17
mixi	\$300	\$5	\$3	\$1	\$1	\$10	3%	\$7
Supercell	\$850	\$15	\$1	\$11	\$10	\$37	4%	\$23
Pokemon	\$150	\$2	\$5	\$1	\$1	\$9	6%	\$8
Ubisoft	\$300	\$1	\$2	\$5	\$0	\$8	3%	\$7
millions, USD								

# **Developer List**

### AAA PC / Console

- 1. Riot
- Activision
- 3. Blizzard
- 4. Ubisoft
- 5. Electronic Arts
- 6. Bethesda
- 7. Nintendo

### **Concentrated Mobile Majors**

- 1. NCsoft
- 2. Nexon
- 3. Square Enix
- 4. Aniplex
- 5. Mixi
- 6. Pearl Abyss
- 7. Bandai Namco

### Strategic Mobile Majors

- 1. Supercell
- 2. King
- 3. Niantic
- 4. Netmarble
- 5. Netease
- 6. Com2us
- 7. Tencent
- 8. Pokemon

# Developer Eligibility Criteria and Obligations

## Developer Eligibility

- AAA console / PC developer launching new mobile title
- 'Mobile Major' with geo concentrated revenue; preparing to expand internationally
- 'Mobile Major' launching new title (or major update), or re-engagement campaign for existing title
- ['Community Development' only] Title has eSports characteristics, and robust YT presence

### Developer Obligations

- Launch on Play on "day 1" of mobile launch
- · Keep title available on Play
- Maintain game experience parity across platforms
- Co-invest behind Play title (primarily marketing + ads)

## Ads SVAs for Hug Devs: \$16M and 12 FTE

	SVA Description	Team	Орех	FTE
<u></u>	Retention & Monetization Consult  Work with client's unique datasets to build predictive and explanatory models and provide systems integration & engineering support.	-gTech Premium Data Science -Sellside TAM	NI/A	4
<b>(#)</b>	Market Expansion Insight & Support  Dedicated support for growth consulting based on Google's unique insights and DIF for bespoke market research, user experience testing, and localization	-CSE -IGT ( <u>Full proposal</u> )	N/A	6
8	Creative Services  Access to internal creative teams and DIF for 3rd party vendors to create high quality ad units at scale. Use Google's newest technology to support innovative campaigns.	gTech Premium Creative Services	\$5.2M	3
\$	DIF (Discretionary Funds)  Dollars allocated to developers to be used for mutually agreed upon external strategic projects, such as 3rd party research study or 3rd party creative development	N/A	\$11M (\$500K for 22 devs)	N/A
	Program Management  Manages SVA distribution, commercialization, and day-to-day ops. Liaise with partner teams (finance, Play, partnerships, etc). Build tools for tracking infrastructure, performance evaluation, and expansion strategy.	-Apps GPL -StratOps	N/A	3

SVAs map to 3 areas of least satisfaction for Play game developers, DSAT survey 2018; gTech Premium Services

## Ads Credit Program for Hug devs: \$100M and 2 TVCs

**Total Ask** 

\$100M, distributed by Play for new title launches & new market expansion. Ad credit amount per developer will be based on developer's Play spend level, Play strategic importance, and ad spend level. Ad credit not to exceed 5% of Play spend per dev, and not to exceed 33% of UAC spend per dev.

2 TVCs to support pilot: 1 for accounting, 1 for ads finance

Duration

2019 + 2020 (~1.5 year pilot): KPI check in every 6 months; will evaluate program for continuation.

Target Developers **22 Hug Developers:** Full list <u>here</u>; primary developer geos include US, JP, KR, UK. Credits to be distributed when devs are launching new mobile titles, or want to grow existing titles, either via international expansion or user re-engagement

Framing to Developers

- Play is co-investing alongside qualifying developers to drive Paid User Acquisition for key campaigns (similar to MDF structure)
- For example, Play will invest alongside developers who qualify for (1) 'Move-to-Mobile' program, (2) 'Go Global' program, or (3) Expanded Play 'Tentpole' Moments

#### What about Unknown Sources?

- Developers have choice on Android (key distinction from Apple). Changes to 'Unknown Sources' create legal / regulatory challenges
- We want developers to actively choose Google, and we want happy customers
- Risk still remains even with changes to Unknown Sources
  - Worse developer sentiment; "app store tax" meme acceleration
  - Alternative stores can still be preloaded
  - Sideloading remains

## Epic / Fortnite

Fortnite is active on ~6M Android devices

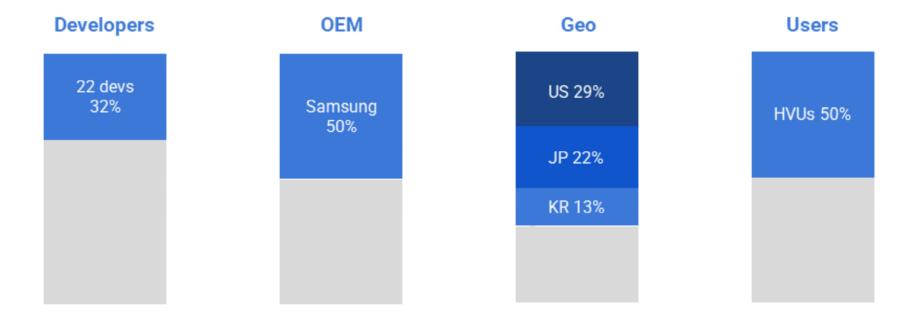
We estimate Fortnite would have been substantially more successful had they launched on Play

#### However, other developers might follow Epic's path for various reasons:

- Every developer that follows Epic's path & launches on the Epic store will have less friction & a larger addressable
  user base than title before it.
- Developers can afford to take a ~20% performance hit on Epic store (due to 88% rev share) and still break-even. Or a ~30% hit in performance if they decide to go-it-alone.
- Developers place value on owning the entire customer relationship beyond what we assessed in our short-term analysis of Fortnite performance.
- PC / Console developers that have long term relationships with their customers already have a good knowledge of which users drive spend. They can directly convert those players over to the mobile version.
- Tencent ownership of influential developers might bias their choices.

## **Play Concentration**

## 2019 Projected Play Spend = \$28B



Play is vulnerable to advances by other players in ecosystem

**EXHIBIT 136.R-041** 

## Preliminary Term Sheet (1/2)

Payment & duration	\$250M paid over 4 years (paid as \$50M1 annual payment)	
Play backend to Galaxy Store frontend (Alley-oop)	apps, including Galaxy Store and Game Launcher  • Catalog: Apps with unique functionality or offers for Samsung users	
Samsung exclusive content	<ul> <li>Process: Play will build functionality to allow developers to set up Samsung-exclusive content (lootdrops, titles, pre-reg bonus) and duration. Samsung and developer negotiate terms</li> <li>Duration: Exclusives must be time-bound; once exclusives expire, content will be generally available to all Play users</li> </ul>	
Play Points	<ul> <li>Establish Samsung as a lead OEM partner in the Google Play Points program</li> <li>Gold Play Points status for Samsung flagship device buyers, subject to \$10M/year<sup>2</sup> investment cap by Google for 1 year</li> <li>Enhanced point promos (accumulation and redemption)</li> </ul>	
Co-Marketing	<ul> <li>Google to provide exclusive or first access co-marketing opportunities to Samsung</li> <li>Lootdrop starter packs for new device purchases</li> <li>Sponsorship of future esports events and geo-specific gaming conferences (e.g., Tokyo Game Show, Taiwan Game Show)</li> </ul>	

1. \$50M is ~1.4% of Play rev on SS devices, ~5% of SS TAC (details) 2. Targeting 3M devices (Source: IDC - 2018 phone sales by price tier in JP, KR, US), assuming 1/3rd redemption rate; \$7 - \$12 cost/phone

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Play Points cost details: Number of eligible devices based on IDC 2018 device sales by price tier in JP, KR, US; program cost (\$7 - \$12/device) driven by \$3 in Play credits for apps/games, \$1.5-\$2.25 in weekly rewards, (JP only) ~\$5 for Play Books/Movies credits, \$2-3/device due to higher points earning per KRW1,000/JPY100/USD spent

## Preliminary Term Sheet (2/2)

## Syndicated ads

- Syndicate Google Ad products on Samsung-owned surfaces (-1, Galaxy Store, game launcher)
  - Samsung to integrate Google Ad products (starting with Google AdMob SDK) into N-1 Bixby Home Feed, Galaxy Store, and Game Launcher; Ads direct users to Play download
  - o Google to provide Ads optimization consulting and access to ML optimization for Ads
  - Samsung to get syndicated Ads rev share (AdMob model). (68% is standard but can be higher)

## Google gets

#### Must "haves":

- Play hosts all app apks; and provides billing, security and updates. Excludes non-mobile apps (e.g. Wear, TV), stickers, themes, and game pre-loads
- Play and Galaxy Store are exclusive app stores on Default Home Screen
- Samsung agrees to adopt Android Game standards (to be defined over time)

#### Additional asks for initial term-sheet (may fall away depending on negotiation):

 Samsung to use Google Ad products in Samsung-owned surface areas that show ads (e.g., N-1 screen, Galaxy Store, and Game Launcher; specifics to be detailed by jurisdiction)

# To achieve our "gets" and help Samsung's goals, we recommend a set of Product and Financial "gives" based on guiding principles

#### Product

- Need Product offers to create tighter and long-term integration with Play; reduce need for pure economic incentives
- Prioritize product offers that are simultaneously beneficial to Samsung and the broader Android gaming ecosystem

#### Financial

- Financial agreement to help Samsung's services revenue goal and justify deprioritizing the Galaxy Store (est 2019 profit: -\$30M to 60M)
- Offer separate from RSA 3.0 negotiation given uncertainty on our approach and timing given current events

#### PRODUCT OFFERS — Play as backend to Galaxy Store frontend

## Play backend to Galaxy Store frontend - how it would work

#### Overview

- Surface area: All Samsung-owned surface areas that facilitate download of Android mobile apps, including Galaxy Store and Game Launcher
- . Catalog: Apps with unique functionality or offers for Samsung users
- Store layout: Samsung continues to curate content and do top-level promotion

### Risks and Mitigations

#### Lost Play Ads revenue due to shift of Play users to Galaxy Store Mitigation:

- Limited Samsung catalog, and all exclusives will be on Play unlikely to shift impressions
- · Capped promotion space in the Galaxy Store
- Providing 33% rev share for Play syndicated ads on Samsung-owned surfaces

#### Play brand dilution

Mitigation: Prominent Play branding on download/purchase screens

Samsung reverts to 1P backend and promotes Galaxy Store after deal expires

Mitigation:

- De-commodify app distribution via Play product investments (e.g., app bundles, dynamic features)
- . Limit Samsung catalog to apps with unique functionality or offers for Samsung users

#### FINANCIAL OFFERS — Lumpsum Payment

### Likely 2019 net profit of Galaxy Store: -\$30M to \$60M profits

Based on extrapolating public estimates of Samsung's Korean app business

#### **Assumptions**

#### Samsung KR business is 2-3% of Android App Spend1

\$80-120M consumer spend in KR

#### Samsung revenue share is 20-30%

\$24-35M Samsung net revenue in KR

#### Relative monetization of Play vs. Galaxy Store in KR is 13%

Galaxy Store KR revenue / MAU = \$0.24 (13% of Play)

#### Relative Play/Galaxy Store monetization in KR applies globally

Galaxy Store consumer spend globally → \$360-545M

#### 250 HC OPEX to run the store

Roughly 15% size of Play team

#### Ads revenue: ~\$10M

 Based on impressions and CTR data shared by Samsung at GDC

Global estimate, \$M	Low	High
Galaxy Store Consumer Spend	\$360	\$545
Galaxy store revenue (20-30% of spend)	\$70	\$165
Payment processing cost (~3% of spend)	-\$10	-\$15
Operating cost (~250 HC)	-\$100	-\$100
Net profit (IAPs only)	-\$40	\$50
Ads revenue	\$10	\$10
Total net profit (incl Ads)	-\$30	\$60

Link to overall proposal

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Source: Korean industry articles; Samsung Galaxy Apps partner program, Play Finance Galaxy Store profit model

#### FINANCIAL OFFERS — Play Points

## Integrate Samsung with Play Points program to help drive Samsung device sales and user engagement

Proposal	Details	Considerations
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Samsung device buyers, enroll and get Gold status

- Eligibility: Users that purchase an ultrapremium Samsung device (Galaxy S+, Note, Fold)
- Region: US, JP, & KR
- Duration: one quarter per year
- Cost: ~\$10M of discounts<sup>1</sup>

- Helps drive Samsung phone sales
- Promotes Play Points among flagship device owners
- High potential cost (>\$70M) if offered year round for all flagship devices

Samsung Play
Points users get
enhanced points
earning and
redemption

- Eligibility: Samsung flagship device owners
- Region: Korea
- Duration: periodic short term promos
- Costs: <\$1M for individual developer & game promos</li>
- Could scale this program to desired size

 Helps Samsung engage with gaming focused, millennial users

Number of eligible devices based on IDC 2018 device sales by price tier in JP, KR, US; program cost (\$7 - \$12/device) driven by \$3 in Play credits for apps/games, \$1.5-\$2.25 in weekly rewards, (JP only) ~\$5 for Play Books/Movies credits, \$2-3/device due to higher points earning per KRW1,000/JPY100/USD spent